

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-335-E - ORDER NO. 2007-680
OCTOBER 1, 2007

IN RE: Application of South Carolina) ORDER GRANTING
Electric and Gas Company) INCREASE TO STORM
Requesting an Accounting Order) DAMAGE RESERVE
Related to the Storm Damage) FUND AND ALLOWING
Reserve Fund) T&D STORM
) INSURANCE PREMIUMS
) TO BE DRAWN FROM
) FUND

This matter comes before the Public Service Commission of South Carolina (“Commission”) on the application of South Carolina Electric and Gas (SCE&G) requesting certain changes to its Storm Damage Reserve fund as initially set forth in Order No. 96-15 (dated January 9, 1996). Specifically, SCE&G requests (1) authorization to increase the maximum amount of the Storm Damage Reserve from \$50 million to \$100 million, and (2) authorization to pay annual premiums for hurricane related transmission and distribution asset insurance from the Storm Damage Reserve until the next retail rate case after Docket No. 2007-229-E is completed. For the reasons below, SCE&G’s requests are granted.

Concerning the proposed increase to the Storm Damage Reserve, when the \$50 million cap was established in 1995, the replacement cost of SCE&G’s transmission and distribution (“T&D”) assets was approximately \$900 million. Order No. 96-15 at 64. Over the intervening 12 years, SCE&G states that the replacement costs of those assets

have more than doubled to approximately \$2.5 billion. For example, according to the document Hurricane Risk and Ice Storm Loss and Reserve Solvency Analyses (“Risk and Solvency Study”) prepared for SCE&G, while Hurricane Hugo inflicted approximately \$52 million in damages to SCE&G’s T&D assets, a Category III storm coming ashore today between Beaufort and Edisto Island would be expected to cost SCE&G between \$70 million and \$110 million. This study also shows that if a Category IV storm came ashore in that location today, the restoration costs to SCE&G are estimated to be between \$149 million and \$225 million.

The record shows that as of July 31, 2007, the Storm Damage Reserve has a balance of \$47.6 million, and approximately \$6 million is being added to the fund each year. The Risk and Solvency Study also shows that while SCE&G’s storm damage costs are likely to be highly variable from year to year, the average claim against the Reserve is estimated to be \$10.2 million annually. With a \$50 million cap, there is a 66% probability that the current fund will be fully depleted within five years. Raising the cap to \$100 million reduces that probability to 56%. The Risk and Solvency Study also shows that with the \$50 million cap, claims against the Reserve are likely to exceed available funds by \$33 million over the next 10 years. Raising the cap to \$100 million reduces the expected shortfall to \$16 million.

Concerning the insurance premium request, SCE&G states that for the first time in decades, it has located underwriters willing to provide a meaningful component of insurance for its T&D assets on reasonable terms. The policy would provide insurance coverage for SCE&G’s hurricane related losses between \$95 million and \$155 million.

The coverage has a \$60 million maximum payout per occurrence and is subject to a deductible of \$95 million. The annual premium for this insurance would be \$2.72 million. The insurance is being underwritten based on model calculations of the damage expected from hurricanes of various intensities and storm tracks that might make landfall in SCE&G's service territory. These models are incorporated into the insurance policy and the insurer's liability for claims is limited to the damage estimates produced by these models using meteorological data from the actual hurricane. Since the risks covered by this insurance are storm-related, SCE&G requests the annual premiums for storm-damage T&D insurance to be drawn from the Storm Damage Reserve.

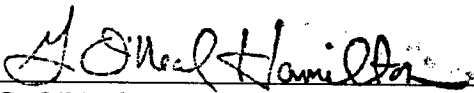
The Commission finds that both increasing the Storm Damage Reserve Fund from \$50 million to \$100 million and allowing storm-damage T&D insurance premiums to be drawn from the Storm Damage Reserve until the next retail rate case after Docket No. 2007-229-E is completed are in the public interest, and we, therefore, grant SCE&G's requests. Because SCE&G's requests will have no impact on its rates, this Order is issued without notice or hearing, pursuant to S.C. Code Ann. § 58-27-870(F) (Supp. 2006).

OCTOBER 1, 2007

PAGE 4

This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:


G. O'Neal Hamilton, Chairman

ATTEST:


C. Robert Moseley, Vice Chairman

(SEAL)